Determinants of dividend payout policy: Incase of Ethiopianprivate insurance share companies

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Declaration

I hereby declare that this research entitled: "Determinants of dividend payout policy: In case of Ethiopian private insurance share companies", is my own work in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance at Addis Ababa University, this work has no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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Abstract

This study investigated the determinants of dividend payout policy of private insurance companies in Ethiopia. The data used in this study was sourced from the annual published report of selected insurance companies and from National bank of Ethiopia. The study used secondary and panel pooled data of seven years (2013-2019) for seven private insurance companies which have been paid dividend continuously for the past seven years. The study employed the OLS multiple regression to determine the effect of profitability, liquidity, firm size, corporate tax, company age, growth in revenue and tangibility of asset on dividend payout policy of insurance companies in Ethiopia. The finding from the study reviled that corporate tax and growth in revenue have negative significant effect on dividend payout policy of Ethiopian insurance industry while liquidity, firm size and tangibility of asset relate positively and profitability, corporate tax, company age and growth in revenue relate negatively with dividend payout policy. Based on the finding the researcher suggest thatwhile setting dividend payout policy management andboard of directors of insurance company must consider corporate tax and growth in revenue which have significant effect on dividend payout policy and also they should consider liquidity, firm size and tangibility of asset since they positively affect dividend payout policy. Investors must also consider liquidity, firm size and tangibility of asset before making investment decision.

Keywords: *Dividend policy*, *Determinants*, *Insurance Companies*, *Ethiopia*

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List of acronyms

BLUE – Best Linear Unbiased Estimator

CLRM - Classical Linear Regression Model

CORT – Corporate Tax

CAGE – Company Age

DPO - Dividend Payout Ratio

DW - Dublin Watson

GROW - Growth in Revenue

HP - Hypothesis

LIQD - Liquidity

NBE - National Bank of Ethiopia

OLS - Ordinary List Square

PROF - Profitability

ROA- Return on Asset

TANA – Tangibility of asset

FSIZ- Firm Size

CHAPTER ONE

Introduction

1.1 Background of the Study

Successful companies earn income. This income can be used for several purposes. It can be invested in operating assets, used to purchase securities, to pay debt, or distributed to shareholders. The income distributed to shareholders is the dividend. This research paper mainly focuses on dividend and dividend payout policy determinant factors.

The purpose of this research is to find out the significant factors which affect dividend payout policy because it is important in indicating the financial position, stability and growth prospect of a company.

The objective of dividend policy is to maximize shareholder's return so that the price in their investment is maximized. Shareholders' return includes: dividends and capital gain. Dividend policy has an immediate effect on both components.

According to (Sajib, Dutta, & Chaity, 2015) "Dividend decision is a very crucial area of financial management. It is also one of the most important issues of interest in the financial literature".Bealey and Meyers (2005) described dividend policy as one of the top ten most difficult unsolved problems in financial economics. This description is consistent with (Black, 1996) whostated that "the harder we look at the divided picture, the more it seems like a puzzle, with pieces that don't fit together".

Thus in business finance, policies on dividend payout still persist as an important strategy not only from a company's perspective but also from the stockholders, investors, administrators as well as different interested party perspective among others.

Dividend payout decision is a decision of paying a company's profit as a dividend or retaining it for future investment.Financial manager of a firm must understand the various conflicting factors which influence the dividend policy before deciding the allocation of company's earnings into dividends and retain earnings. The decision of retaining the profit used as a source of financing and payment of dividend results a reduction of cash due to this total asset also reduces. Thus payment of dividend implies cash out flow and declining future growth it both affect shareholders' wealth and the long term growth of the firm. The optimum dividend policy should strike the balance between current dividends and future growth which maximizes the price of

thefirm's shares. Also the financial manager should consider the effect of the frequency and size of dividend payments because it affects both stock prices, the flow of fund, corporate liquidity and moral of shareholders.

Thus setting corporate dividend policy remains controversial and involve judgment by decision makers. Most researches have been made in developed countries like the US and UK which is characterized by developed capital market with better investor protection and stringent corporate and securities regulations. There is few researches made in developing or less developed economy because they don't have developed market. Due to differences in regulations, culture, environment and nature of investment the findings of developed economy may not be directly applied to developing economy like Ethiopia.

This study examines the factors that determine dividend payout policy in Ethiopian privet insurance share company since it is important sector in Ethiopian economy. Despite its importance the examination of dividend policy on Ethiopian insurance sector has been limited.

Therefore this study sick's to fill this gap by conducting an empirical analysis on the determinant of dividend payout of Ethiopian privet insurance company.

The sector plays important role in providing financial service for the economic growth of the country and offers financial protection to individuals and firms against loose from unforeseen circumstances.

According to(National Bank of Ethiopia, 2019) indicates that , during the reporting period the industry's gross written premium reached birr 9.1 billion, birr 0.5 billion (5.7%) from life assurance and birr 8.6 billion(94.3%) from general insurance business. The total capital and assets of insurance companies reached birr 8.2 billion and 20.8 billion respectively.

Therefore the researcher to the large extent, concentrated on insurance company with less research attention thereby providing a comprehensive understanding of the determinants of dividend policy of insurance company which is important for the economic development of Ethiopia and it is against this back ground that this research address the problem by providing empirical evidence on the determinants of dividend policy of Ethiopian insurance company.

1.2 Problem Statement

Dividend payout policy is an important corporate issue and may be closely related to, and interacts with, most of the financial and investment decisions firms make. A proper understanding of dividend policy is critical for many other areas such as asset pricing, capital structure, mergers and acquisitions, and capital budgeting (Allen & Michaely, 1995)

Even though dividend policy is studied by many researchers' for decades it still the most controversial topic and research area of corporate finance .What factors affect dividend policy ,does dividend payout policy affect firms value is still the unsolved puzzle. Insurances companies usually are confronted with the problem of either paying a higher, lower or no dividend to their shareholders as against investing their net earnings for future benefits. Also insurance company managers face a problem to find out the most significant factors which affect the dividend payout policy. All these important issues emerge in the attempt by management to meet their shareholders desire and aspirations. However, the shareholders may also have divergent views and interest with regard to the dividend declared for the year. While a group will go for receiving their dividends now at a higher rate another group will prefer reinvesting in the firm with the prime motive of capital gains in the future. In dealing fairly with this shareholders conflicting interests and enthusiasm, a serious attention is thus needed on the kind of policy on dividend payout an insurance company may adopt. In a related development, the dividend payout policy a firm may choose in one way or the other could affect price of their shares negatively or positively.

The dividend policy determinants have been well researched in developed continents like USA & Europe by (Lintner, 1956), (Miller & Modigliani, 1961), (Black & Scholes, 1974) and many other researchers a few empirical investigations have been undertaken in emerging markets or developing countries.

Very few researches have been made in this issue in Ethiopia, as far as the researcher knowledge only (Temesgen, 2016), (Habtamu, 2019),(Nuredin, 2012),(Samuel. G, 2017)(Simegn.H, 2013),(Demilie, 2016) and (Tefera, 2016) have been study it.

Therefore, the main purpose of this study is to investigate the determinants' of dividend payout of listed insurance company in Ethiopia during the period 2013-2019 by collecting financial information from the financial statement of selected insurance companies which pay dividend for

the past seven years. The finding contributed to fill the literature gap exist in developing country context. Furthermore the purpose of this study is to identify the key variables that determine dividend payout of Ethiopian insurance company's dividend policy.

1.3 Research Questions

These questions guided the researcher in achieving the set goals of the study;

i. What are the significance of Profitability, Liquidity, Firm size, corporate tax, Company Age, Growth in revenue, and Tangibility of asset in defining Dividend Payout of Ethiopian private insurance companies?

ii. What relationship does Profitability, Liquidity, Firm size, corporate tax, Company Age, Growth in revenue, and Tangibility of asset has with respect to Dividend Payout ratio of Ethiopian private insurance companies?

1.4 Objectives of the Study

1.4.1 General Objective

Generally, this research work seeks to identify the key determinants variables of Ethiopian insurance companies used as basis in their dividend payout policies.

1.4.2 Specific Objectives

The specific objectives of this empirical research work are;

- To examine the effect of profitability on dividend payout of Ethiopian private insurance company.
- To investigate the effect of liquidity on dividend payout of Ethiopian private insurance company.
- To evaluate the effect of firm size on dividend payout of Ethiopian private insurance company.
- To examine the effect of corporate tax on dividend payout of Ethiopian private insurance company.
- To investigate the effect of company age on dividend payout of Ethiopian private insurance company.

- To examine the effect of growth in revenue on dividend payout of Ethiopian private insurance company.

- To examine the effect of tangibility of asset on dividend payout of Ethiopian private insurance company.

1.5 Significances of the Study

The study is significant in a number of ways;these study findings and results will serve as a reference in comparing major determinants factors of Ethiopian insurance companies in making financial decisions by analysts of finance. Again, managers and board of directors of Ethiopian Insurance companies in paying dividends to their stockholders could use the results as their guide in choosing the appropriate payout ratio. Also, on the part of the shareholders these research findings will guide them in their investment decisions. Thus investors of private insurance company will make informed decisions as to whether going for annual dividend or capital gains.

1.6 Research hypothesis

The study was done based on the following research hypothesizes which were derived from the specific objectives and tested throughout the analysis of the study:

Hp1: Profitability has a positive and significant impact on dividend payout policy of Ethiopian Insurance Companies.

Hp2: Firm liquidity has a positive and significant impact on dividend payout Policy of Ethiopian insurance companies.

Hp3: Firm size has a positive and significant impact on dividend payout Policy of Ethiopian insurance companies.

Hp4: Corporate tax has a negative and significant impact on dividend payout Policy of Ethiopian insurance companies.

Hp5: Company age has a positive and significant impact on dividend payout Policy of Ethiopian insurance companies.

Hp6: Growth in revenue has a negative and significant impact on dividend payout policy of Ethiopian Insurance Companies.

Hp7: Tangibility of assets have a positive and significant impact on dividend payout policy of Ethiopian Insurance Companies.

1.7 Scope of the Study

This study was limited to:

Focus: This study was focuses only to private insurance companies operating in Ethiopia.

Used Variables: The variables used in this study was limited to onedependent and seven independent variables. The dependent variable was dividend payout ratio and the independent variables where profitability, liquidity, firm size, corporate tax, company age, growth in revenue and tangibility of asset.

Time frame and data used: As a result of the short time frame and difficulty in getting access to financial Statements of the Ethiopian private Insurance companies, this research work centered on seven (7) out of 17 (seventeen) Private insurance companies in Ethiopia. Again the study was conducted using data obtained from seven years financial statements from 2013 to 2019.

1.8 Limitation of the study

Seven insurance specific determinant factors are included in the research but it is possible that other factors might have a greater impact on the dividend payout ratio than the ones included in the research .The analysis and conclusions are given based on the secondary data sources, both the dependent and independent variables are from past data sources. Hence, the historical data may not reflect the current and future economic situation.

1.9 Organization of the study

This research work basically has five chapters. The first chapter, chapter one the introduction gives an overall overview of research work. The second chapter reviews literature on determinants of dividend payout policies with particular reference to dividend theories and empirical evidence on dividend payout policies. Chapter three contains the research methodology used to carry out the study. The fourth chapter presents the study results, analysis and discusses the major findings of this research work. Finally, the fifth chapter, consist of conclusion, recommendations, suggestion for further research.

CHAPTER TWO

Literature review

In this chapter, literature on dividend and related aspects will be reviewed.This chapter focuses on the theoretical framework of dividend policy, different theories on dividend payout, dividend polices as well as detailed review of empirical studies on determinants of dividend payout. It provides relevant theories and previous studies related determinants of dividend, then discusses about the company selected factors included in the research.

2.1 Theoretical framework

2.1.1 Meaning of Dividend

Dividend is a distribution of a company's earnings, decided by the board of directors, to a class of its shareholders. It is a distribution of profits. When a company earns a profit, it can either re-invest it in the business (called retained earnings), or it can distribute it to shareholders. A company may retain a portion of its earnings and pay the remainder as a dividend (O'Sullivan & Sheffrin, 2002)

2.1.2 Meaning of dividend policy

The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease, R. C., John, K., Kalay, A., Loewenstein, U., & Sarig, 1999)

According to (Uwuigbe, Jafaru, & Ajayi, 2012)dividend policy remains one of the most important financial policies, not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government. For a company, it is a pivotal policy around which other financial policies rotate.

2.2.1Dividend Policy Theories

The effect of dividend decision on firm value and other issues issue of corporate dividend policy have been studied for more than half of a century by several scholars. Generally they categorize it in three theories; bird-in-hand theory, tax- preference theory, the dividend irrelevant theory.

Those who argue high dividend increase firms value develop the bird-in-hand hypothesis ,and those who argued low dividend increase share value develop the tax preference hypothesis and those believe under perfect capital markets dividends are not relevant develop the dividend irrelevant theory.

Dividend is not limited to these three theories. There are also other theories in respect to dividend policy some of the more popular of these are the signaling theory, client effect, the agency cost theory, life cycle theory and pecking order theory.

The next section considers this development from both a theoretical and empirical point of view.

2.2.1.1 MM Irrelevance Hypothesis

In 1961, Miller and Modigliani came up with the dividend irrelevance theory. According to this theory dividend payment did not affect the value of a firm so it is irrelevant. The value of a firm affected by current and future earnings not by payment of dividend.

The model was developed under the assumptions of perfect market, rational investors, no tax discrimination between dividend income and capital gain, firms have fixed investment policy and no risk or uncertainty.

Their argument is that under perfect market condition investors can make their own dividend by selling their shares, equally if they are paid dividend they can use it to purchase additional shares. So if investors can create their own dividend policy without incurring additional cost dividend is irrelevant.

This theory criticized by other researchers some of them argue the approach based on assumption that do not exist in real world, that it is not applicable in practical life, there is no risk no uncertainty of investment it is not applicable, not consider flotation cost and transaction cost, they assume investors are rational but there is no assurance.

Those in conflict with Miller and Modigliani's ideas introduced competing theories and hypotheses to provide empirical evidence to illustrate that when the capital market is imperfect, dividends do matter. (Black & Scholes, 1974)risethe question, "if dividends are irrelevant, why do corporations pay dividends"; and "Why do investors pay attention to dividends"?

2.2.1.2 Bird-in-hand Hypothesis

(M. J. Gordon, 1959)developed the bird-in-hand theory as a counterpoint to the Modigliani-Miller dividend irrelevant. This assumption argues investors prefer dividend over capital gain due to its certainty. They appreciate dividend today as a certain cash flow, as opposed to capital gain in the future which is uncertain.Investors prefer the "bird in the hand" of cash dividends rather than the "two in the bush" of future capital gains.

So investors are more willing to invest in stocks that pay current dividend than to invest in stock that retain and pay dividend in the future.

This theory is developed by assuming that firms has no external finance, cost of capital and return are constant, firms have perpetual life, there is no tax. This model also assume there is no debt and equity finance used by a firm it is not applicable today, cost of capital and returncannot be constant, there is no tax it is not practical.

Increasing dividend payout ratios maximize a firm's value. As a higher current dividend reduces uncertainty about future cash flows, a high payout ratio will reduce the cost of capital, and hence increase share value.(Al-Malkawi, Rafferty, & Pillai, 2010)

The supporters of this hypothesis argued that due to the existence of market imperfections and uncertainties, dividends are valued differently from capital gains. Hence, investors would prefer the "bird-in-hand" (cash dividends) to "two-in-the-bush" (future capital gains).

(Miller & Modigliani, 1961) have criticized the Bird-in-hand Hypothesis and argued that the firm's risk is determined by the riskiness of its operating cash flows, not by the way it distributes its earnings. Consequently, M&M called this argument the bird-in-the-hand fallacy.

(Bhattacharya, 1979) describes the bird in hand theory as an illusion and suggests that a company's cash flow risk will affect that company's dividend payments but not decrease the risk by increasing dividend payments. A company's cash flow are reflected to its dividend payments.

Though this hypothesis has been argued by many researchers, it still received supports some of Studies that provide support for the Bird-in-hand Hypothesis (Myron J. Gordon & Shapiro, 1956),(M. J. Gordon, 1959),(Lintner, 1962), and(Walter, 1963)

2.2.1.3 Tax Preference Hypothesis

This hypothesis predicted that low-dividend payout ratios lower the rate of returns, which ultimately increases the market value of the firm and vice versa. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately, while taxes on capital gains are deferred until the stock is actually sold.

This hypothesis suggests that because dividend is taxed immediately and at higher rate than capital gain some investors prefer low dividend. Low dividend payment will lower the rate of return which in the long run increases the market value of the firm.

(Black, 1996)state that " in a world where dividends are taxed more heavily (for most investors) than capital gain, and where capital gain are not taxed until realized a corporation that pays no

dividend will be more attractive to taxable individual investor than a similar corporation that pays dividends. This will tend to increase the price of the non-dividend paying corporation's stock".

It also argued that the influence and treatment of taxes might have effect on income to be distributed by a firm. In most countries, the tax rates which apply to dividends differ from capital gains tax rate. Hence, investors in different tax bracket will have different perception regarding whether to accept cash dividends or obtain capital gains. These the tax advantage of capital gain over dividend tend to predispose investors, who have favorable tax treatment on capital gain, to prefer companies that retain most of their earnings rather than pay them out as dividend, and are willing to pay a premium for low-payout companies. Therefore, a low dividend payout ratio will lower the cost of equity and increases the stock price.

According to this hypothesis; investors in high tax bracket will require higher pre-tax risk adjusted premium returns to hold stocks with higher dividend yield.(Al-Malkawi et al., 2010)

2.2.1.4 Clientele Effects Hypothesis

(Pettit, 1977) studied the clientele effect of dividends. This theory suggested that investors are differently affected by firm's dividend policy decisions and accordingly some investors prefer companies that pay significant amount of their earnings in form of dividends, while others prefer the ones that retain higher proportion of their earnings for other investment and future development.

The different tax treatment of dividend and capital gain is also an important factor that necessitates investors' different behavior toward dividend and capital gain and owing to this, an investor that prefers high dividend will invest in a firm that pay large amount of its earning as dividend while those in favor of capital gain will prefer firms that pay low dividends or no dividends. (Allen, Bernardo, & Welch, 2000) suggest that clienteles such as institutional investors tend to be attracted to invest in dividend-paying stocks because they have relative tax advantages over individual investors.

These institutions are also often subject to restrictions in institutional charters (such as the "prudent man rule"), which, to some extent, prevent them from investing in non-paying or low-dividend stocks. Similarly, good quality firms prefer to attract institutional clienteles (by paying dividends) because institutions are better informed than retail investors and have more ability to

monitor or detect firm quality. (Allen et al., 2000)conclude with the proposition that, "…these clientele effects are the very reason for the presence of dividends…"

2.2.1.5 Agency Cost Hypothesis

Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals (shareholders) and their agents (company executives). The agency theory of (Jensen & Meckling, 1976)focuses on the relationship between an agent of the company's managers and a shareholder.

(Jensen & Meckling, 1976) argue that equity agency costs would be lower in firms with larger proportions of inside ownership. Managers are better understanding their interest with stockholders when they increase the shareholders' ownership of the firm. The agency cost approach recognizes the firm as a collection of groups of individuals with conflicting interests and self-seeking motives.

According to the agency theory, these behavioral implications cause individuals to maximize their own utility instead of maximizing the firm's wealth. According to (Easterbrook, 1984)dividend payout reduces the agency cost. Because dividend payout forces company managers to provide cash from the market, it means that the market actors must keep a close eye on the company. Easterbrook (1984) suggested that both the monitoring and risk aversion problem are reduced if firms are constantly in the capital market for new capital. He therefore argued that when firms pay dividends it forces them to remain in the capital market. When the firm issues new share's (or issue new debt including bonds and commercial papers), the firm's affairs will be reviewed by investment bankers, lawyers and public accountants. Thus managers who need to raise money consistently are more likely to act in investors' interests than managers who are immune from this kind of public scrutiny. He further noted that the principal value of keeping firms constantly in the market for capital is that the contributors of capital are very good monitors of managers, this reduces the agency problem.

2.2.1.6 Signaling Hypothesis

The explanation about the signaling theory given by (Bhattacharya, 1979) and(John& Williams, 1985) dividends allay information symmetric between managers and shareholders by delivering inside information of firm future prospects.

As managers are likely to have more information about the firm's future prospects than outside investors, they may be able to use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth. Outside investors may perceive dividend announcements as a reflection of the managers' assessment of a firm's performance and prospects. When a company increased its dividend payout it may be considered as an indication of good news which is good future profitability therefore the company's share price will react positively, the reverse is true when a company cuts dividend it may be interpreted as a signaled as poor future perspectives or bad news and the price of the share my be react unfavorably.

According to the signaling hypothesis developed by (Bhattacharya, 1979), managers have more knowledge of the company's investments than those shareholders who are outside the company and use the company's dividend payout decisions as a means to convey this information to the outsider.

(John& Williams, 1985) the view is that the managers on the inside have more information about the company's future cash flow than outside investors or partners and reflect this information in dividend payout decisions. In general, these models are based on several assumptions. There is asymmetric information between corporate insiders (managers) and outside investors (shareholders).

Dividends contain information about the firm's current and future cash flows, and managers use it to convey their private information to the market using dividend payment in order to close the information gap.

2.2.1.7 Life Cycle Theory

(Mueller, 1972) proposed a formal theory that a firm has a relatively well-defined life cycle, which is fundamental to the firm life cycle theory of dividends. The theory explains that as firms pass through the various stages in their lives, they tend to alter the dividend policy depending on the financial needs of each stage. Implied in this theory is the fact that firms that are in their growth stages are less likely to pay more dividends as compared to firms that are at their maturity stages. Old firms therefore, because they do not have a lot of growth opportunities to fund, are expected to pay more dividends.

(DeAngelo, DeAngelo, & Stulz, 2006) also states that "dividends tend to be paid by mature, established firms, plausibly reflecting a financial life cycle in which young firms face relatively

abundant investment opportunities with limited resources so that retention dominates distribution, whereas mature firms are better candidates to pay dividends because they have higher profitability and fewer attractive investment opportunities".

2.2.1.8 Pecking order theory

(Myers & Majluf, 1984) develop the pecking order theory. It suggests that cost of financing increase with asymmetric information.

Asymmetric information affects the choice between internal & external financing and also the issue of debt to equity financing.

According to this theory Financing comes from three sources, internal funds, debt and new equity. Companies prioritize their sources of financing internal fund used first when that is reduce then debt issued; when there is no longer sensible to issue any more debt, equity is issued.

2.2.2 Types of dividends

(G.mike, 2017) outline the following as types of dividend. He classified them based on the form in which they are paid. Following given below are the different types of dividends:

a) Cash dividend:most companies pay cash dividend. A Company should have enough cash in its bank account when cash dividends are declared. Thus companies that are adequately liquid pay cash dividends.

b) Bonus Shares (Stock -dividend): the bonus shares are distributed proportionately to the existing shareholder. Hence there is no dilution of ownership. Bonus share also have the following advantages to shareholders , tax benefit, indication of higher future profits by shareholders, future dividends may increase and it have favorable psychological effect on shareholders because they associate it with the prosperity of the company.

c) Special dividend: in special circumstances Company declares Special dividends. Generally company declares special dividend in case of abnormal profits.

d) Extra- dividend: an extra dividend is an additional non-recurring dividend paid over and above the regular dividends by the company. Companies with fluctuating earnings payout additional dividends when their earnings warrant it, rather than fighting to keep a higher quantity of regular dividends.

e) Annual dividend: When annually company declares and pay dividend is defined as annual dividend.

f) Interim dividend: during the year any time company declares a dividend, it is defined as Interim dividend.

g) Regular cash dividends: Regular cash dividends are those the company exacts to maintain every year. They may be paid quarterly, monthly, semiannually or annually.

h) Scrip dividends: These are promises to make the payment of dividend at a future date, Instead of paying the dividend now, the firm elects to pay it at some later date. The 'scrip' issued to stockholders is merely a special form of promissory note or notes payable

i) Liquidating dividends: These dividends are those which reduce paid-in capital: It is a pro-rata distribution of cash or property to stockholders as part of the dissolution of a business.

j) Property dividends: these dividends are payable in assets of the corporation other than cash. For example, a firm may distribute samples of its own product or shares in another company it owns to its stockholders.

2.2.3 Types of dividend policy

(Pandy, 2011)Dividend policies may vary between various firms as every firm sets its own policy for dividend distribution. Firms may pursue any one of the following dividend policies:

a) Generous or Liberal dividend policy Firms that follow this policy reward shareholders generously by stepping up dividend over the time

b) Stable dividend policy: firms may follow the policy of: Stable dividend payout ratio: According to this policy, the percentage of earnings paid out of dividends remains constant. The dividends will fluctuate with the earnings of the company. Stable Naira (inflation adjusted) dividend policy: As per this policy the Naira level of dividends remains stable.

c) Low regular dividend plus extra dividend policy: as per this policy, a low, regular dividend is maintained and when times are good an extra dividend is paid. Extra dividend is the additional dividend optionally paid by the firm if earnings are higher than normal in a given period. Although the regular portion will be predictable, the total dividend will be unpredictable.

d) Residual dividend policy: under this policy, dividends are paid out of earnings not needed to finance new acceptable capital projects. The dividends will fluctuate depending on investment opportunities available to the company.

e) Multiple dividend increase policy: Some firms follow the policy of very frequent and small dividend increases. The objective is to give shareholders an illusion of movement and growth.

f) Erratic dividend policy: Dividends are paid erratically when the management feels it will not strain the resources of the firm. Interests of the shareholders are not taken care of while making the dividend decisions. It has been observed by various researchers that firms generally prefer to follow a stable or a gradually rising dividend policy.

g) Uniform cash dividend plus bonus policy: Under this policy, the minimum rate of dividend per share is paid in cash plus bonus shares are issued out of accumulated reserves. However bonus shares are not given compulsorily on an annual basis. They may be given over a period of a certain number of years, for example 3-5 years depending on the accumulated reserves of the company that can be utilized for the purpose of issuing bonus.

2.3. Review of Empirical Studies

(Rehman & Takumi, 2012) the study examines the determinants of dividend payout ratio in the largest stock exchange of Pakistan i.e. Karachi Stock Exchange (KSE).

The effect of Debt to equity ratio, Operating cash flow per share, profitability, market to book value ratio, current ratio and corporate tax on dividend payout ratio was analyzed for the year 2009 for 50 companies that declare dividend in 2009.The result show that dividend payout ratio have positive relation with debt to equity ratio, profitability, current ratio and corporate tax while Operating cash flow per share and market to book value ratio has a negative relation with dividend payout ratio. Profitability, debt to equity and market to book value ratios were found to be the significant determinants of dividend payout ratio in Pakistan.

(Qamar & Akbar, 2013) the study try to determine the factors which effect dividend yield and dividend payout ratio by taking 27 oil and gas companies which are listed on Karachi Stock Exchange(KSE) and Lahore Stock Exchange (LSE). This study provides empirical analysis of the effect of factors (earning per share, profitability, stock prices, firm size, lagged value of dividend, market to book value and financial leverage) on dividend yields, dividend payout ratio. The results provide strong support that factors market to book value and financial leverage has negative relationship with dividend yield and dividend payout ratio.

The results also demonstrate that profitability, earning per share, firm size, stock price and lagged value of dividend have positive relationship with dividend yield and dividend payout ratio. A major part of the results reveal that stock price, profitability and firm size have great effect on dividend yield and dividend payout ratio.

(Amidu & Abor, 2006) the researchers seek to examine the determinants of dividend payout ratios of listed companies in Ghana. They use six years data collected from the financial statement of firms listed on the Ghana Stock Exchange to analyze the data. Institutional holding is used as a proxy for agency cost. Growth in sales and market-to-book value are also used as proxies for investment opportunities. The results show that dividend payout ratios have positive relation with profitability, cash flow and tax. The results also show that dividend payout ratio relate negatively with risk, institutional holding, growth and market-to-book value. However, the significant variables in the results are profitability, cash flow, sale growth and market-to-book value.

(Moradi, Salehi, & Honarmand, 2010)the research covers all listed companies in the Tehran Stock Exchange between 2000 and 2008. The aim of the study is to elaborate a model which would enable to examine the effects of dividends in relation to profitability, size, and beta rate, the rate of retained earnings, P/E, and debt ratio. According to the results of the study there is a positive relationship between dividend and profitability. However, the results also reveal that there is a negative relationship of these factors with P/E, beta rate and debt ratio.

(Imran & Rate, 2011) empirically investigate the factors that determine the dividend payout decisions in the case of Pakistan's engineering sector. The researcher uses data of thirteen years from the period 1996 to 2008 from thirty-six firms listed on Karachi Stock Exchange.

He uses various panel data techniques like fixed and random effects, the results suggest that the profitability ,size, sales growth, earnings per share, previous dividend per share and cash flow of the firm are the most critical factors determining dividend policy in the engineering sector of Pakistan.

(Alzomaia & Al-khadhiri, 2013) the aim of the researchers is to examine the factors determining dividend represented by Dividends per share for companies in the Saudi Arabia stock exchanges (TASI). In this study they run a regression model and used a panel data covering the period from of 2004 to 2010 for 105 non- financial firms listed in the stock market.

The model investigates the effect of Earnings per share (EPS), Debt to Equity (D/E) ratio, previous year dividends, Beta & Capital Size on Dividends per Share. The results shows that Saudi listed non-financial firms rely on current earnings per share and past dividend per share of the company to set their dividend payments.

(Franklin & Muthusamy, 2010) the researchers used Lintner dividend model and its extended versions for analysis of dividend determinate.

Growth in sales, Earnings per share, Price earnings ratio, Market value to book value, Cash flow, Leverage, Liquidity and Return on assets are used as independent variables while dividend payout is the dependent variable. The results imply that the Indian paper industry employs more leverage for narrating dividend payout ratio.

(Rafique, 2012) the researcher observe 53 companies representing 11 sectors which have been paying dividend consistently for six years from 2005 to 2010. The researcher select variables like Corporate Tax, Growth, Firm Size, Earnings, Profitability, & Financial Leverage to examine the determinant factors of dividend payout using multivariate regression analysis for econometric analysis of the data. The results revealed that Corporate Tax and Firm's Size had significant relationship with Dividend Payout.

(Fodio, 2009)the researcher used the parsimonious multiple regression model developed by Musa (2005) by using cross section data of 53 firms which are registered in Nigerian Stock Exchange (NSE) for ten years from 1993 to 2002. The researcher used five metric & three non-metric variables. The metric variables are previous dividend, current earnings, cash flow, investment and net current assets and the non-metric variables are growth, firm size and industry classification, in order to explain as well as predict the dividend policy of quoted firms in Nigeria. The empirical results reveal that the five metric variables have significant aggregate impact on the dividend policy of the quoted firms. However, three of the variables- current earnings , previous dividend and cash flow , have been found to be robust in the model, the tests find that none of the three non-metric variables provides a statistically significant improvement to the base model.

(Maldajian & El Khoury, 2014) this research aims at investigating the factors determining the dividend payout policy in the Lebanese banks listed on the Beirut Stock Exchange. The study considers the impact of seven variables, namely, profitability, liquidity, leverage, firm size, growth, firm risk and previous year's dividend payout on the dividend payout ratios by using an unbalanced panel dataset of listed banks between the years of 2005 and 2011. Two models were tested using the OLS and the dynamic panel regressions.

Empirical results show that the dividend payout policies are positively affected by the firm size, risk and previous year's dividends, but are negatively affected by the opportunity growth and profitability.

(Thi & Trang, 2012) examined the determinants of dividend policy in Viet Nam; the author relies on a sample of 116 companies listed on the Hochiminh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) for the year of 2009 in Viet Nam. The paper identifies whether firms' characteristics and corporate governance affect their dividend payments.

Firms' characteristics include profitability, firm size, debt level, liquidity, asset structure, industry type, growth opportunities plus business risk; corporate governance comprises management ownership, ownership concentration, and board of directors along with audit quality. It is found that, in Vietnam, profitability influences positively and business risk impacts negatively on dividend disbursement. Moreover, there are relationships between industry type as well as audit quality and dividend payments.

(Fatima Sadik, 2017) focuses on the determinants of dividend payout for the non-financial firms of Textile Industry of Pakistan. It examines the effect of size, liquidity, profitability and leverage on dividend payout for the KSE listed 159 textile firms of Pakistan by using Logit model. The data has been obtained from Financial Statement Analysis of Non- Financial Companies provided by State Bank of Pakistan for the years 2009 and 2013. The results are in accordance with the existing literature: Size, Liquidity and profitability affect the dividend payout positively while Leverage will have a negative effect on it.

(Wesley, Musiega, Douglas, & Atika, 2013)the research paper examines determinants among dividend payout of non-financial firms listed on Nairobi Securities Exchange. Purposive sampling technique was used to examine the determinants of dividend payout of non-financial firms listed on Nairobi Securities Exchange.

Five year from 2007 to 2011 data was collected from audited financial statement of 30 non-financial companies. The secondary data where obtained from Nairobi Securities Exchange website and the website of non-financial firms.

Liquidity, profitability, current earnings and growth was independent variables while dividend payout ratio was dependent variable. Business risk and size was taken as moderating variable. Multiple regression and descriptive statistics was used to analyze the variables. Among the

variables firm growth activity, return on equity and current earnings were found to be positively correlated with dividend payout. The moderating variables which are size and business risk increase the precision of significant variables from 95% to 99%.

(NUHU, MUSAH, & SENYO, 2014) examines the consistency of the determinants of dividend payout in financial and non-financial firms in Ghana. They take sample from firms of Ghana stock exchange from 2000 to 2009. To estimate the determinants of dividend payout they use ordinary least square regression model. Tax, leverage, profitability and board size were taken as factors to have effect on dividend payout but only board size is found consistence for both financial and non-financial firms in Ghana.

(Baah, 2014) examine the industry sector determinants of dividend policy and its effect on share prices of companies listed on the Ghana Stock Exchange for the period 2006-2011.They study the effect of liquidity, price volatility, size, return on equity, earning per share, profit after tax and growth in asset on dividend payout. They take twelve companies from six different sector of the economy. They perform panel data regression using spss software. Profit after tax, size of the company and return on equity where found the main factors that determine dividend payout policy for companies listed on Ghana stock exchange.

(Temesgen, 2016) by using mixed research approach they tried to explore the determinant factors of corporate dividend payout in Ethiopian private insurance industry. They study seven insurance companies by collecting 12 years panel data from 2001-2012 and also they had interview with respective company managers. Earnings per share, liquidity, age, size, leverage, investment opportunity, last year dividend payout, regulation and growth is sales where factors analyzed in the study. To identify the most significant variable fixed effect model was used. The study reviled that age of company, earning per share, liquidity and regulation on dividend taxation have positive and statistically significant relation with dividend remaining variables found to have insignificant relation with the dividend payout in Ethiopian private insurance industry.

(Nuredin, 2012) study Ethiopian private insurance companies to find out the determinant factors of dividend payout policy. He use a plane data of nine years from 2003-2011 for nine insurance companies. The researcher also had in-depth interview with company officials. Profitability, growth, liquidity, size and leverage were the variables used to analyze the effect on dividend payout policy.

To identify the most significant variable the researcher used the random effect technique. The results show that profitability and liquidity are the statistically significant factors which positively influence dividend policy of insurance companies in Ethiopia. On the other hand, growth influences dividend policy negatively and significantly. Contrary to theoretical prediction, the study finds that size and leverage are insignificant in influencing the dividend policy of insurance companies in Ethiopia.

The study provides evidence that profitability, liquidity and growth are the most important factors that affect dividend policy of insurance companies in Ethiopia.

(Samuel. G, 2017)use Ordinary Least Squares (OLS) Regression to examine the impact of profitability, liquidity, leverage, firm size, growth opportunity, previous year dividend and asset structure on dividend policy in the insurance sector over a period of nine years from 2007/08 to 2015/16. The empirical results of his study showed that profitability, leverage, liquidity, previous year dividend and asset structure have a positive relationship with dividend payout.

Meanwhile, firm size and growth opportunities have a negative relationship with dividend payout. Furthermore, the results of the analysis indicated that profitability, liquidity, growth opportunities, previous year dividend and asset structure were the major factors that affected dividend policies of Ethiopian insurance companies. And the researcher recommend mangers of Ethiopian insurance companies need to consider these factors while setting/revising their dividend payout policy; on the same token investors need to consider these factors in their investment decisions when they want to make an investment in Ethiopian insurance companies.

(Simegn.H, 2013)investigates determinants of dividend policy of banks in Ethiopia using variables; current earning, previous year's dividend, liquidity, leverage, loan loss provision and bank's age .Ten years panel data (2002-2011) of five banks was collected and analysis through using the Panel Least Square method with the fixed effect model . The regression result shows that current earning, previous year's dividend, bank's age and loan –loss provisions have positive and statistically significant impact on the banks dividend payments whereas liquidity has negative impacts and leverage is not an important variable for the banks dividend decision. Variables, current earning, previous year's dividend payment, loan loss provision and age are the major factors that determine the banks dividend decision.

(Habtamu, 2019)tried to examine the determinants of corporate dividend payout in Ethiopian private insurance industry. The researchers used quantitative research method and explanatory research approach. He used 11 year (2007-2017) panel data of ten private insurance companies. Asset structure, Firm size, Growth in revenue, leverage, liquidity, Profitability, previous year dividend, GDP and inflation where used as explanatory variables. The result of the study revealed that growth opportunity, liquidity, profitability, previous year dividend, GDP inflation have found to have statistically significant relation with the dividend payout and the remaining variables found to have statistically insignificant relation with the dividend payout in Ethiopian private insurance industry.

(Demilie, 2016) examine the effect of internal factors on dividend payout of private commercial banks in Ethiopia.He use seven internal variables which are profitability, liquidity, leverage, growth, size and previous year's dividend. Panel data regression technique and random effect model was used for seven years data from 2009- 2014. The result show that last year dividend, bank size, growth, profitability and leverage have significant effect while liquidity have insignificant effect on dividend payout ratio of private commercial banks in Ethiopia.Also out of the selected variables lase year dividend, bank size and growth positively relate while the reaming variable negatively relate to dividend payout of Commercial banks in Ethiopia.

(Tefera, 2016) Study the dividend determinant factors in Ethiopian private insurance company by using eight years financial data from 2007 to 2014. The objective of the study was to identify the impact and relationship of profitability, liquidity, leverage, firm's size, growth opportunity, lagged dividend payout ratio and business risk on dividend payout. The researcher use random effect model and panel least square regression. The result shout that profitability, liquidity, growth opportunity and lagged dividend payout ratio has a statistically significant effect on dividend payout ratio. Also the study found that leverage, firm size and business risk were found to be insignificant in dividend payout decision of Ethiopian insurance companies. Profitability, leverage and lagged dividend payout have positive rotation while the remaining variable has negative relation with dividend payout of Ethiopian private insurance company.

Figure1.1 Summaries ofsome empirical studies

Author & date publication	**Title and case study**	**Methodology**	**variables constructions**
Amidu and Abor (2006)	Determinants of dividend payout ratios in Ghana ,2006	OLS Regression	Portability, risk, cash flow, corporate tax, institutional holdings, sales growth and market-to-book value.
(Franklin & Muthusamy, 2010)	Leverage, Growth and Profitability as Determinants of Dividend Payout Ratio-Evidence from Indian Paper Industry, 2010	Linter's model	Earnings per share, Price earnings ratio, Market value to book value, Cash flow, Leverage, Liquidity and Return on assets
Rafique (2012)	Factors Affecting Dividend Payout: Evidence From Listed Non-Financial Firms of Karachi Stock Exchange ,2012	Multivariate Regression model	Earnings, Firm Size, Growth, Profitability, Corporate Tax & Financial Leverage
Musa,InuwaFodio (2009)	The dividend policy of firms quoted on the Nigerian stock exchange: An empirical analysis ,2009	Multiple regression model	five metric variables-previous dividend, current earnings, cash flow, investment and net current assets, and three non-metric variables- growth, firm size and industry classification,
Sadik (2017)	Factors affecting Dividend Payout in Pakistan's Textile	Logit model	size, liquidity, profitability and leverage

	Industry		
Nuhu, Musah, Senyo (2014)	Determinants of Dividend Payout of Financial Firms and Non-Financial Firms in Ghana	ordinary least squares panel regression model	profitability, board size, leverage and taxes
Nuredin .M (2012)	Determinants of Dividend Policy of Insurance Companies in Ethiopia	mixed research approach ,random effects technique	Profitability, growth, Liquidity, Size and Leverage.
Samuel G(2017)	Determinants of Dividend Policy Evidence from Ethiopian Insurance Companies	Quantitative data, & Ordinary Least Squares technique	profitability, liquidity, leverage, firm size, growth opportunity, previous year dividend and asset structure
SIMEGN. H (2013)	Determinants of dividend policy of Banks in Ethiopia	quantitative, panel data ,OLS regression technique, Fixed effect model	current earning, previous year's dividend, liquidity, leverage, loan loss provision and bank's age
HabtamuDilnessa(2019)	Determinants of Dividend payout policy: in case of Ethiopian Private Insurance Companies	Panel data, OLS regression technique ,random effect models,	Asset structure, Firm size, Growth in revenue, leverage, liquidity, Profitability, previous year dividend, GDP and inflation

2.4 Factors influencing Dividend Policy

A) Profitability

The impact of profitability on dividend payout ratio have been studied by several researchers. Some them are (Samuel. G, 2017), (Nuredin, 2012), (Tefera, 2016),(Temesgen, 2016) and (Amidu & Abor, 2006).

(Nuredin, 2012) on his study of determinants of dividend payout policy of Ethiopian insurance company had used profitability measured by ROA as a predictor variable to determine dividend payout ratio and he found out that profitability have positive and significant impact on dividend payout. This means that profitable insurance company in Ethiopia pay dividend for their shareholders. The researcher conclude the more profitable the insurance company is the higher the possibility to pay dividend. This finding is consistent with agency theory.

The effect of profitability on dividend payout ratio was studied by (Samuel. G, 2017),(Tefera, 2016),(Temesgen, 2016) and (Amidu & Abor, 2006) all researchers have found positive and significant effect. But (Temesgen, 2016) study found profitability (ROA) have negative and insignificant effect on Ethiopian insurance companies. Which indicts the more the profitability the firm is the less the probability of dividend payment. This finding is consistent with picking order theory.

B) Liquidity

Liquidity found one of the significant factor which determine dividend payout ratio by (Samuel. G, 2017), (Nuredin, 2012),(Temesgen, 2016), (Tefera, 2016), (Habtamu, 2019), (Maldajian & El Khoury, 2014) and (Franklin & Muthusamy, 2010).

Both (Samuel. G, 2017), (Nuredin, 2012), (Tefera, 2016),(Temesgen, 2016), (Tefera, 2016) and (Habtamu, 2019) empirically examine the effect of liquidity on dividend payout ratio of Ethiopian insurance industry. All of the researchersascertain that liquidity is positively relate and significantly affect the insurance industry in Ethiopia except (Temesgen, 2016), (Tefera, 2016). This indicate that the more liquid the firm is the more likely to pay dividend.

(Tefera, 2016) on his study of Internal factors influencing dividend payout of Ethiopian insurance companies by using 8 years financial data of 8 insurance company found liquidity have

negative and significant effect. This finding is in contrary with the agency theory of cash flow (Jensen & Meckling, 1976) which argued that firms with high cash flow pay higher dividends in order to diminish the agency conflict between managers & shareholders.(Tefera, 2016) explore the negative association is due to absence of capital market in the country and the nature of insurance company require to maintain high liquidity (current asset) to avoid insolvency problem.

C) Firm size

Firm size have been studied by (Temesgen, 2016), (Baah, 2014), (Fodio, 2009), (Rafique, 2012),(Tefera, 2016), (Demilie, 2016),(Samuel. G, 2017)and (Imran & Rate, 2011).

(Baah, 2014)study the effect of firm size on his work of determinant of dividend policy in Kuwet stock exchange. By using four years panel set of data. The study consists 56 companies of financial sector.

The research result of (Baah, 2014) shows firm size has positive relation and statistically significant effect. Which means that large company pay greater dividend in Kuwet.

Firm size have been studied in Ethiopia by(Tefera, 2016) on his study of Internal factors influencing dividend payout of Ethiopian insurance companies found firm size have negative and insignificant relation with dividend payout ratio of Eithiopian insurance companies. (Samuel. G, 2017) also the same result.

But (Demilie, 2016) study found firm size have positive and statistically significant effect in banking industry in Ethiopia. Which indicates that the probability of paying dividend increase with firm size, large firm pay higher dividend. The researcher conclude that large firm pay high dividend because large firm face agency cost, due to weak control in monitoring the management and large firm passes more resource and easy access to external market.

D) Corporate tax

The corporate tax effect on dividend payout ratio have been studied by several researchers some of them are (Baah, 2014),(Rehman & Takumi, 2012),(Rafique, 2012) and (Amidu & Abor, 2006).

The tax preference theory stats that the lower the tax the higher the probability of paying dividend.

(Rafique, 2012) on his study of Factors affecting dividend payout evidenced from listed non-financial firms at Karachi stock exchange observe 53 companies representing 11 sectors which have been paying dividend consistently for six years from 2005 to 2010. The finding indicate a 1 unit change in corporate tax will determine 87-90 unit positive change in dividend payout in Pakistan.

Also (Amidu & Abor, 2006) found positive relation between dividend payout ratio and corporate tax. Both findings are in contrary with tax preference hypothesis.

E) Company age

(Simegn.H, 2013) and (Temesgen, 2016) study the effect of company age on dividend payout policy.

According to life cycle theory firms which are on their growth stage are less likely to pay more dividend as compared to firms on their maturity stage. There for old firms expected to pay more dividend because they do not have lot of growth opportunity to finance.

(Temesgen, 2016) studies determinants of corporate dividend payout in case of Ethiopian private insurance companies by observing 12 years data of seven private insurance companies from (2001-2012). The researcher found company age have positive and significant effect on dividend payout ratio of insurance industry in Ethiopia. (Simegn.H, 2013) also found positive relation between firm age and dividend payout ratio of banking industry in Ethiopia on his study of Determinants of dividend policy of banks in Ethiopia.

F) Growth in revenue

(Temesgen, 2016),(Tefera, 2016), (Imran & Rate, 2011),(Alzomaia & Al-khadhiri, 2013), (Nuredin, 2012), (Samuel. G, 2017) and (Habtamu, 2019) are some of researchers studied the effect of growth on dividend payout ratio.

Both researchers found there is a negative and significant relation between growth and dividend payout ratio and conclude that firms with higher growth opportunity have less probability to pay dividend.

(Tefera, 2016) found a negative and statistically significant effect between growth and dividend payout ratio on his study of Internal factor influencing dividend payout of Ethiopian insurance companies. Indicating that the more the probability of growth the less the ability of paying

dividend due to the need for fund to finance the expansion and more likely to retain earnings than paying dividend.

G) Tangibility of asset

(Thi & Trang, 2012),(Samuel. G, 2017), (Habtamu, 2019) are some of researchers who study the effect of tangibility of asset (asset structure) on dividend payout ratio.

(Samuel. G, 2017) study private insurance companies in Ethiopia revals that asset structure have positive and statistically significant effect on dividend payout ratio. Based on the finding the researcher concludes the Ethiopian insurance companies held significant amount of their investment on current asset than fixed asset in respective of total asset will result a highest dividend payout.

In contrary (Samuel. G, 2017) study, (Habtamu, 2019) study of Determinants of dividend payout policy in case of Ethiopian insurance company reviles tangibility of asset have positive and insignificant effect to dividend payout ratio of private insurance companies in Ethiopia.

2.5. Research Gap

However dividend and dividend policy have been studied by several scholars for decades to find out what factors affect dividend policy, how the policy affect the firms value and how do shareholders behave towards the dividend decision still no consensus have been developed.

The inconsistency between the findings and the contradiction between the theories makes the dividend policy the unsolved puzzle. For instance from review of empirical studies above liquidity have been taken as the determinant variable by both (Simegn.H, 2013) and (Samuel. G, 2017) but the finding is different (Simegn.H, 2013)study says liquidity have negative impact on dividend decision wile (Samuel. G, 2017)study says it have positive impact.

The review of empirical studies shows that the determinants of dividend have been well researched in developed countries and few studies have been made in Africa in Nigeria, Ghana and Kenya. Also few studies have been made in Ethiopia.

Previous studies conducted on the topic of determinants of dividend policy: an evidence from Insurance companies in Ethiopia were limited to same firm specific variables and recommend the rest variables for further research area, this study come up with inclusion of corporate tax and

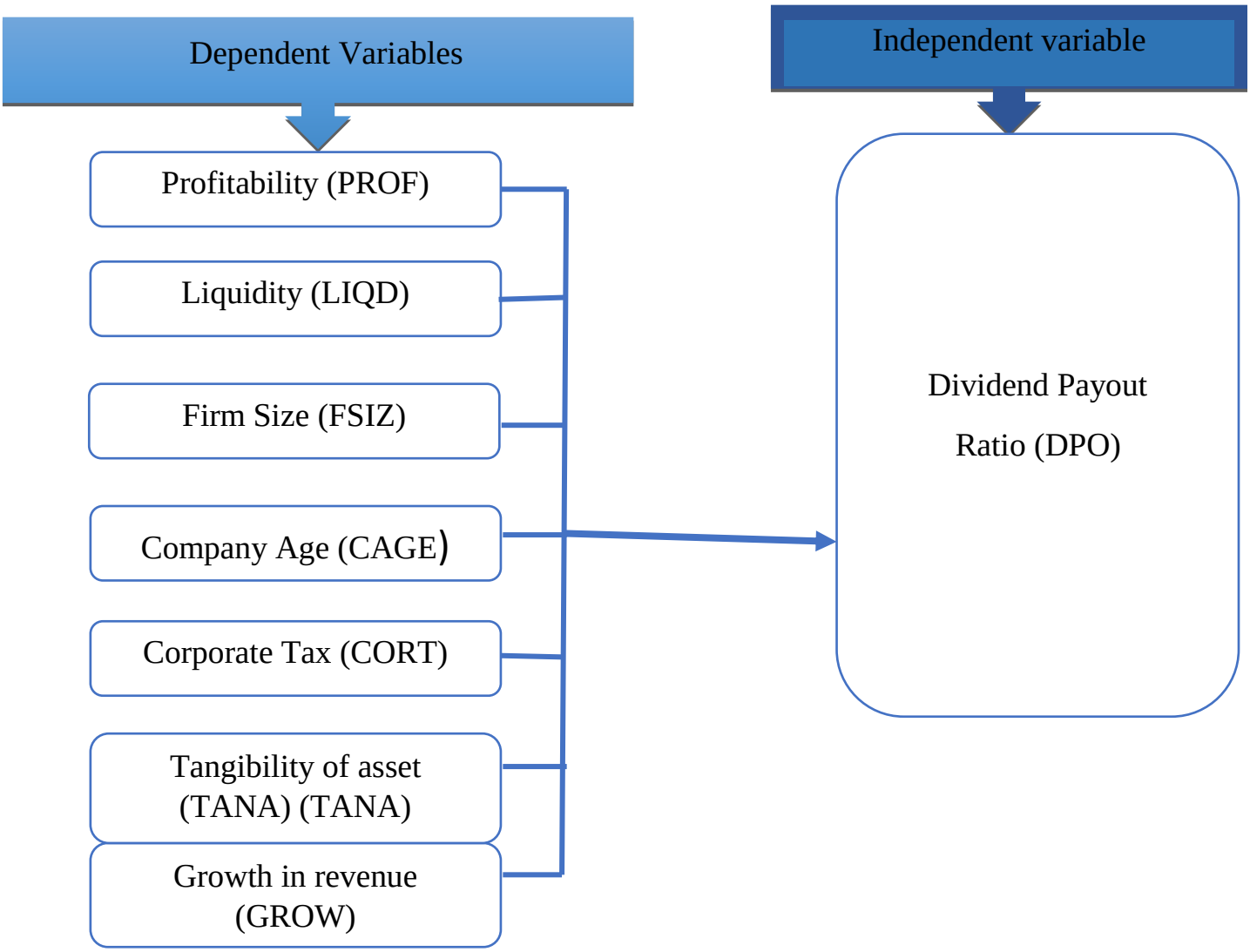
age of the company, which are found to be significant but not studied at the same time in other similar studies.

Therefore this research aims at investigating the factors determining the dividend payout policy in Ethiopian private insurance companies. The study will considers the impact of seven variables, namely, profitability, liquidity, firm size, corporate tax and age of the firm, growth and tangibility of asset by using panel dataset of listed insurance companies between the years of 2013 and 2019. The models will be analyzed using the OLS.

2.6 Conceptual Framework

Figure 2.1 Conceptual framework

In order to examine the research problem of this study, the following conceptual framework has been adopted by which the following diagram describes the relationship among variables of interest.



SourcedSamuel. G (2017)

CHAPTER THREE

Research Design andMethodology

The objective of this chapter is to describe the research design and research methodology used in this study. The chapter has been organized as follows: - start with highlight research design then followed data type; source and data collection and data analysis followed by model specification and final part presents operationalization of study variables.

3.1 Research Design

"A research design helps to decide upon issues like what, when, where, how much, by what means etc., with regard to research study. In general, the research design is the conceptual structures within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data" (Seltiz*et al.* 1962).

This study presented an empirical analysis of determinant factors of dividend payout for Ethiopian insurance companies. Explanatory research design is employed in the study.As mentioned by Saunders et al. (2009), explanatory research design examines the cause and effect relationships between dependent and independent variable. Therefore, the purpose of this research design the is to investigatethe determinants of dividend payout ratio of private insurance companies in Ethiopia by examining the relationship between dependent variable, dividend payout ratio and independent variable; profitability, liquidity, firm size, corporate tax, company age, growth in revenue and tangibility of asset.

3.2 Research Methodology

Quantitative research method is employed in the study(Mike Allen, 2013) defined "quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods". Also the quantitative method puts more emphasis on the results with causality relationship(Bryman & Bell, 2007). The method has been used due to the fact that, the aim of the study is to generalize the truth found in the samples listed companiesregarding the determinants of dividend payout. This generalization under quantitative method can be obtained through a systematic way of seeking facts and causes of phenomena, focuses on analysis of numerical data, uses of controlled measurements and statistically analyzing to test the stated hypotheses. Hence this method is an appropriate for the study as it consists of an excellent way of finalizing result and proving or disproving the hypotheses with available statistical and econometric methods, SPSS statistical software and panel least square regression method has used to analyze the data.

3.3 Data Types and Sources

The data type for this study is quantitative data obtained fromsecondary data source. The data obtained from annual audited financial reports of private insurance share companies& NBE. The financial data includes balance sheet, income statement and cash flow statements.

3.4 Data collection and sampling technique

3.4.1 Data collection

The study used secondary data which are collected from National Bank of Ethiopia and published annual reports of seven Ethiopian insurance companies included in the sample for the period of seven years (20013– 2019). The expected total number of observation is 49 (7*7).

3.4.2 Population and Sampling technique

All private insurance share companies in Ethiopia are considered as the population of the study. Seven private insurance share companies are selected which are (Africa Insurance company S.C, Awash insurance company S.C, Nyala Insurance company S.C, Nile Insurance company S.C, The United Insurance S.C, Nib Insurance Company S.C, Oromia Insurance Company S.C,).The listed insurance companies are selected based on ownership; only private insurance share companies pay dividend & consistency of paying dividend for the past seven years.

3.5 Data Analysis

In this study a panel model was conveyed to display the connection between the dependent and the independent variables. This relationship was determined using Ordinary Least Square (OLS) regression with the application of SPSS.

The study adopted multiple linear regression model to identify and measure possible factors that could affect the dividend payout as measured by Dividend Payout Ratio (DPO). The assumptions on classical linear regression model tested to determine whether the collected data would fit the assumptions in order to use Ordinary Least Squares (OLS) technique. Hence, all classical linear regression model (CLRM) assumptions (Errors have zero mean, Heteroscedasticity, Autocorrelation, Multicollinearity, and Normality) will betest in this study.

3.6 Model Specification

In order to achieve the objectives of this study, the panel data regression model is used. Panel data also known as longitudinal data consist of time series and cross sectional data. In the cross section data, all the units for the period under study are considered. Thus in this study because

the data was made up of cross section and time series data, it had same details about all the seven (7) private insurance companies sampled for the seven year period. This explained why the balanced panel estimation method was adopted for the study. The panel data model in all cases looks at the individual group variables' heterogeneity and therefore provides the effect of the factors with lesser collinearlity within the variables with greater grade of choice and efficacy. After careful formulation of the question of interest, based on the hypotheses formulated and selected variables the economic model can be formulated as DPO=*f* (PROF, LIQD, FSIZ, CORT, CAGE, GROW, TANA).

From the above economic model the following econometric model is specified;

$$DPO_{it} = \alpha + \beta_1 PROF_{it} + \beta_2 LIQD_{it} + \beta_3 FSIZ_{it} + \beta_4 CORT_{it} + \beta_5 CAGE_{it} + \beta_6 GROW_{it} + \beta_7 TANA_{it} + \varepsilon_{it}$$

Where;-

DPOit = is Dividend Payout of „i" at time„t" =Dividend / Net Profit

PROFit =Profitability of „i" at time„t" = Gross income / total assets

LIQDit = Liquidity of „i" at time„t" = current assets / current liability

FSIZit = Size of insurance company of „i" at time„t" =logarithm of total assets

CORTit= Tax of insurance company of „i" at time„t" =Annual tax paid by the company

CAGEit= Age of insurance company of „i" at time„t" = Difference between the current year and the year of the establishing.

GROWit= Growth of insurance company of „i" at time„t" = (Current income - Previous income)/Previous income

TANAit=Tangibility of asset of insurance company of „i" at time„t" =Fixed Assets / Total Assets

$\beta 1 - \beta 7$= coefficient of independent variables

ε = error term

i= private Insurance company

3.7 Variables Definition and Hypothesis Development

3.7.1. Dependent Variable

3.7.1.1. Dividend Payout Ratio

Dividend pay-out ratio (DPO) is used to proxy for dividend pay-out policy. It is measured by the ratio of dividend paid to profit after tax. "The dividend is defined as a portion of a firm's net earnings, which is paid among the shareholders"(Jain, 2007).DPO is calculated by using the formula of total amount of dividend divided by the Net income.

3.7.2 Independent Variables

3.7.2.1 Profitability and Dividend Payout

Profitability is defined as the capability of the entity to produce profits and is used as a measure of the firm's performance .Previous researchers have found profitability as one of the most important determinants of dividend payout policy. The results on relationship of profitability and dividend payout have been mixed. As per the pecking order theory, the firms will prefer to rely more on internal funds or retained earnings as a result the firms will have a tendency of paying less dividend and having more retained earnings. Also, the signaling principle of dividend coverage has it that, profitable firms are geared up to pay better amounts of dividends to hold their exact monetary overall performance (ROA) will be used as a proxy to measure profitability of the firm. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is calculated by dividing EBIT to total assets (Franklin & Muthusamy, 2010) say ROA is negatively related with dividend payout. Firms with larger profits are more likely to pay a dividend, while companies that are facing uncertainty, about future profits, would adopt lower payouts. Furthermore, several studies have documented a positive relationship between profitability and dividend payouts of the firm (Amidu & Abor, 2006) confirm positive association between profitability and dividend payout. As a result, the researcher formulates its hypothesis as follows;

Hp1: Profitability has a positive and significant impact on dividend policy of Ethiopian Insurance Companies.

3.7.2.2 Liquidity and Dividend Payout

Liquidity measures the extent to which a firm is able to meet its payment of obligations. High liquid firms, i.e., firms with higher cash availability and near cash assets, pay higher dividends to shareholders than those with insufficient cash (Nuredin, 2012). Signaling theory also states that,

firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash. Furthermore, according to the agency theory of cash flow states that firms with high cash flows pay higher dividends in order to diminish the agency conflict between their managers and shareholders. Liquidity is an essential factor that affects the dividend policy it is measured by current asset divided by current liability.

(Nuredin, 2012) found significantly positive relationship between liquidity and dividend payout ratios and he conclude that a good liquidity position increases insurance companies‟ ability to pay dividend. Generally, insurance companies with good and stable cash flows are able to pay dividend easily compared with insurance companies with unstable cash-flow position. As a result, the researcher formulates its hypothesis as follows;

Hp2: Firm liquidity has a positive and significant impact on dividend Policy of Ethiopian insurance companies.

3.7.2.3 Firm Size and Dividend Payout

Firm size is considered an important factor. Generally large firms supposedly pay more dividends. The natural logarithm of total assets is used as a proxy to measure the firm size.

This also consistent with what is mentioned in (Baah, 2014) study where he found that it has a positive relationship while (Nuredin, 2012)study finds that size is insignificant in influencing the dividend policy of insurance companies in Ethiopia. In Ethiopia (Temesgen, 2016) studies shows a positive association between firm size and dividend payout. As a result, the researcher formulates its hypothesis as follows;

Hp3: Firm size has a positive and significant impact on dividend Policy of Ethiopian insurance companies.

3.7.2.4 Corporate Tax and Dividend Payout

Tax is a levy imposed by government on corporations against their profits. High tax rates normally discourage firms as well as shareholders for high dividends. Corporate tax has been calculated as annual tax paid by the firm. (Amidu & Abor, 2006) in their study of determinants of dividend payout ratio found that corporate tax and dividend payout ratio are positively related. Indicating that, increasing tax is associated with increase in dividend payout. (Rafique, 2012) also state that corporate tax has negative significant relationship with Dividend Payout. As a result, the researcher formulates its hypothesis as follows;

Hp4: Firm corporate tax has a negative and significant impact on dividend Policy of Ethiopian insurance companies.

3.7.2.5 Company age and Dividend Payout

It is the number of the activity years of the company which is acquired through the difference between the current year and the year of the establishing the company. According to (Temesgen, 2016) study firm age have positive and statistically significant relation with the dividend payout. As a result, the researcher formulates its hypothesis as follows;

Hp5: Firm age has a positive and significant impact on dividend Policy of Ethiopian insurance companies.

3.7.2.6 Growth in revenue and Dividend Payout

Growth of a company is the ability of a business to generate significant positive cash flow or earnings. Growth (GROW) is basically the change in revenues of the insurances under the study. "The higher the growth opportunities, the more the need for funds to finance expansion, and the more likely the firm is to retain earnings than pay them as dividends" (Thi & Trang, 2012).

A growing company tends to have very profitable reinvestment opportunities for its own retained earnings thus it result low dividend payout ratio. (Habtamu, 2019) study found growth in revenue have negative and statistically significant relation with the dividend payout As a result, the researcher formulates its hypothesis as follows;

Hp6: growth in revenue has a negative and significant impact on dividend policy of Ethiopian Insurance Companies.

3.7.2.7 Tangibility of asset and Dividend Payout

Tangible assets are assets owned by a company and potentially used as collateral for getting funds. Tangibility of the assets is measured by taking the ratio of tangible assets and book value of total assets. (Myers & Majluf, 1984) assumed that "companies owning the most tangible assets are likely to borrow more than those owning the most intangible assets, so they have the ability to keep less retained earnings and pay higher dividends according to pecking order theory". This suggests a positive association between asset tangibility and dividends. As a result, the researcher formulates its hypothesis as follows;

Hp7: Tangible assets have a positive and significant impact on dividend policy of Ethiopian Insurance Companies.

3.8 Operationalization of study variables

Figure 3.1 Proxy variable, Definition & Expected signs

Proxy variable	**Definition**	**Expected signs**
Dividend payout ratio (DPO)	Dividend / Net Profit	
Profitability(PROF)	Net Income/ Total assets	+
Liquidity (LIQD)	current assets / current liability	+
Company Size (FSIZ)	logarithm of total assets	+
Corporate tax (CORT)	Annual tax paid	-
Company Age (CAGE)	Difference between the current year and the year of the establishing	+
Company growth (GROW)	Growth in revenue	-
Tangibility of asset (TANA)	Tangible asset/total asset	+

CHAPTER FOUR

Data analysis and interpretations

The purpose of this chapter is to present results and analysis of data. The chapter has been organized as follow, first section deals about the preliminary Analysis, which is expected to presents descriptive and correlation analysis on variables of the study and then the second section presents the result of the fulfillment of the classical linear regression model (CLRM) assumptions and the third and final section lays down the results of regression analysis that constitute the main findings of this study.

4.1Descriptive statistics

Table 4.1presents the descriptive statistics for both the dependent and explanatory variables of the study. N denotes the number of years under observations. Therefore the number of years under observation as shown in table 4.1 is **7** years for seven private insurance companies in Ethiopia from the year 2013 up to 2019 with total observations of 49**.** The table shows the number of observations minimum, maximum, mean, and standard deviation for dependent (explained) variable, dividend payout ratio(DPO) and independent (explanatory) variables Profitability(PROF) , liquidity (LIQD), firm size (FSIZ), corporate tax(CORT) Age of a company (CAGE) , Growth in revenue (GROW) and tangibility of asset (TANA).

Figure 4.1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DPO	49	.08	2.08	.5877	.40546
PROF	49	.03	3.75	.3788	.84163
LIQD	49	.44	10.24	2.2222	2.33676
FSIZ	49	15.71	21.64	20.0628	1.46549
CORT	49	.00	18.0000	8.6850	5.1389
CAGE	49	4.00	25.00	18.0000	5.61249
GROW	49	-.55	4.24	.3221	.72912
TANA	49	.00	.77	.2458	.21274
Valid N (listwise)	49				

(Source: SPSS output)

According to Table 4.1 all the variables comprised 49 observations. This means there are no missing values among the variables for the study making the data strongly balanced.

As it is stated in chapter three, dividend payout ratio (DPO) is measured by total dividend over net income after tax for the year. The mean of dividend payout ratio was 58.7% and standard deviation 0.4. This means, private insurance share companies in Ethiopia, under the period of study, payout 58.7% of their net income after tax as dividend. The standard deviations indicate the amount of dividend that had been deviated from its mean to both sides by 0.4 up to the maximum 2.08 and minimum of 0.08 dividend payout ratio.

The mean of profitability was 37.8% on average for each one birr investment in the asset of private insurance share companies there was 37.8 % return. The maximum value of ROA for the year was 374.8% whereas the minimum value was 3%. Also the standard deviation was 84%; it means the value of profitability can deviate from its mean to both sides by 84%.

Also, the mean in respect to the liquidity of the firm which is the proxied firm's current assets divided by current liability stood 2.22 birr with a fluctuation of 2.33 birr. This means that on average, for one-birr liability of the firm during the period under study there is.2.22 birr available in current asset,a maximum liquidity position of 10.24 and minimum of 0.44 with a dispersion of 2.33 ups and downs.

Natural logarithm of total asset is used as proxy variable to check the size of the private insurance share companies and its relationship with dividend policy. The mean of size of private insurance companies over the period 2013 up to 2019 is found 20.06 and standard deviation for the size variable is 1.46. The size of private insurance company in the industry during the study period ranges from minimum of 15.7 to maximum of 21.64.

More so, table 4.1 reflects a mean in respect to tax to be 8.6 million birrwith a deviation of 5 million. Tax which isdescribed as money paid to government from business profit. Ethiopian privet insurance companies pay tax on average 8.6 with a deviation of 5million at minimum 0 up to maximum 18 million.

On average the age of private insurance companies in Ethiopia is 18 years with a standard deviation of 5.6 and minimum and maximum age is 4 and 25 respectively.

Also, the private insurance companies on the average grow in revenue by 32% with a standard deviation of 0.7 whereas the minimum and maximum growth rate of the insurance for the Seven year study period was 0.55 and 4.24 respectively.

On average Ethiopian insurance companies have tangible asset of 0.24 with a standard deviation 0.21 with minimum and maximum 0 and 0.77 respectively.

4.2 Correlation analysis

Judging from Table 4.2 the correlation matrix displays that dividend payout has a positive correlation with firm size (FSIZ), liquidity (LIQD) and tangibility of asset (TANA) and correlates negatively with all other four remaining variables being profitability (PROF), company age (CAGE), corporate tax (CTAX) and growth in revenue (GROW).

This means when firm size (FSIZ), liquidity (LIQD) and tangibility of asset (TANA) increase dividend payout ratio also increaseswhile profitability (PROF), company age (CAGE), corporate tax (CTAX) and growth in revenue (GROW) decrease dividend payout ratio.

Figure2.2 The pearson correlation of the variables used in regression

Correlations

		DPO	PROF	LIQD	FSIZ	CORT	CAGE	GROW	TANA
DPO	Pearson Correlation	1	-.176	.049	.133	-.604**	-.019	-.447**	.079
	Sig. (2-tailed)		.227	.736	.361	.000	.895	.001	.590
	N	49	49	49	49	49	49	49	49
PROF	Pearson Correlation	-.176	1	.187	-.871**	-.160	-.573**	.138	-.253
	Sig. (2-tailed)	.227		.198	.000	.271	.000	.343	.079
	N	49	49	49	49	49	49	49	49
LIQD	Pearson Correlation	.049	.187	1	-.375**	-.317*	-.017	-.140	-.218
	Sig. (2-tailed)	.736	.198		.008	.027	.907	.336	.132
	N	49	49	49	49	49	49	49	49
FSIZ	Pearson Correlation	.133	-.871**	-.375**	1	.263	.532**	-.094	.334*
	Sig. (2-tailed)	.361	.000	.008		.068	.000	.519	.019
	N	49	49	49	49	49	49	49	49
CORT	Pearson Correlation	-.604**	-.160	-.317*	.263	1	.389**	.301*	.162
	Sig. (2-tailed)	.000	.271	.027	.068		.006	.036	.265
	N	49	49	49	49	49	49	49	49
CAGE	Pearson Correlation	-.019	-.573**	-.017	.532**	.389**	1	-.047	.185
	Sig. (2-tailed)	.895	.000	.907	.000	.006		.748	.203
	N	49	49	49	49	49	49	49	49
GROW	Pearson Correlation	-.447**	.138	-.140	-.094	.301*	-.047	1	.009
	Sig. (2-tailed)	.001	.343	.336	.519	.036	.748		.951
	N	49	49	49	49	49	49	49	49
TANA	Pearson Correlation	.079	-.253	-.218	.334*	.162	.185	.009	1
	Sig. (2-tailed)	.590	.079	.132	.019	.265	.203	.951	
	N	49	49	49	49	49	49	49	49

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

(Source: SPSS output)

4.3Test of data validity

4.3.1 Multicollinearitytest

Multicolinearity indicates the degree of correlation between independent variables. The best regression models are those in which the predictor variables each correlate highly with the dependent variable but correlate at most only minimally with each other. There are many ways of testing for multicollinearity of independent variables. In this study, the Pearson coefficient of correlation between variables was used to detect any problem of collinearly.

Figure 4.3.1 Thepearson correlation of the variables used in regression

	Correlation between Vectors of Values							
	DPO	FSIZ	PROF	LIQD	CORT	CAGE	TANA	GROW
DPO	1.000	.133	-.176	.049	-.604	-.019	.079	-.447
FSIZ	.133	1.000	-.871	-.375	.263	.532	.334	-.094
PROF	-.176	-.871	1.000	.187	-.160	-.573	-.253	.138
LIQD	.049	-.375	.187	1.000	-.317	-.017	-.218	-.140
CORT	-.604	.263	-.160	-.317	1.000	.389	.162	.301
CAGE	-.019	.532	-.573	-.017	.389	1.000	.185	-.047
TANA	.079	.334	-.253	-.218	.162	.185	1.000	.009
GROW	-.447	-.094	.138	-.140	.301	-.047	.009	1.000

This is a similarity matrix***(Source: SPSS output)***

Judging from Table 4.3.1, the correlation matrix displays that dividend payout has a positive correlation with size, liquidity and tangibility of asset and correlates negatively with all other four variables being growth, age, corporate tax and profitability.

As detected from the table 4.3.1, multicollinearity of the variables is not problematic because most of the correlation coefficients are lower than 0.75 (Malhotra, 2004).

The low inter-correlation among the explanatory variables used in the regression indicates no reason to suspect serious multicollinearity. Also it is shown on table 4.5 the (VIF) of variable are less than 10 this ascertain that there is no melticollinearity problem.

Those variables having VIF higher than 10 means they have problem of multicollinearity. Multicollinearity among the independent variables may lead to incorrect signs or unlikely

magnitudes in the coefficients of the estimated models as well as standard error bias of the coefficients.

4.3.2Heteroscedasticity test

Heteroskedasticity is a systematic pattern in the errors where the variances of the errors are not constant. The assumption of Classic linear regression model implies that there should be homoskedasticity between variables which means Variance of residuals should be constant otherwise heteroskedasticity problem will be happened in our regression.

The Breuschpagan test was applied to check the existence of heteroskedasticity the result in table 4.3.2 shows, the absence of heteroscedasticity. Since, significance values are greater than 0.05. This implies that the assumption of homoscedasticity or errors have a constant variance is not violated.

Figure 4.3.2 Thebruschpagan test of heteroscedasticity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.536	7	2.791	.799	.593[b]
	Residual	143.270	41	3.494		
	Total	162.805	48			

a. Dependent Variable: Square

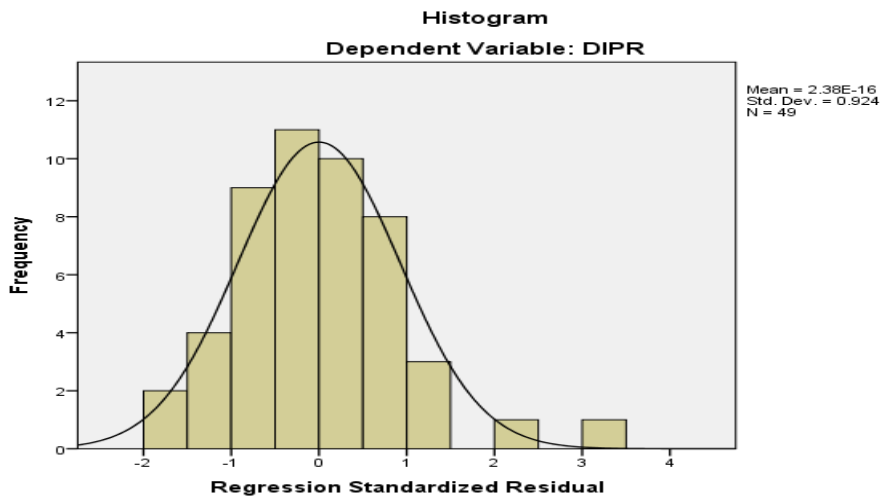
b. Predictors: (Constant), TANA, GROW, CAGE, LIQD, CORT, PROF, FSIZ

(Source: SPSS output)

4.3.3 Test for normality:

It is assumed that the distribution of residuals is normal. If the normality assumption is violated our hypothesis testing is not reliable. The histogram shape is bell curve so it is normal curve. This shows that dividend payout ratio have normal curve and given data has normality.

Figure 4.3 Normality test for residuals



(Source: SPSS output)

4.3.4 Test of auto-correlation

CLRM states that the covariance and correlations between different disturbances are all zero.If this assumption is no longer valid, then the disturbances are pair wiseauto correlated (or Serially Correlated) due to this the estimated variances of the regression coefficients will be biased,The OLS estimators will be inefficient and therefore no longer BLUE, Hypothesis testing is no longer valid. In most of the cases, the R2 will be overestimated and the t-statistics will tend to be higher.

To check the existence of auto-correlation the Durbin Watson test was applied. Andas it is shown on table 4.4, it is estimated 2.316 which is closer to the internationally recognized value of 2. This thus indicates the absence of a serious auto-correlation. The Durbin Watson statistics ensures that the residuals of the proceeding and succeeding sets of data do not affect each other to cause the problem of auto-correlation.

4.4 Regression results

Regression analysis is the main tool used for data analysis in this study. Regression analysis shows how one variable relates with another. The result of the regression is hereby presented in this subsection of the study.

Table 4.4 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.731[a]	.534	.454	.300	.534	6.702	7	41	.000	2.316

a. Predictors: (Constant), TANA, GROW, CAGE, LIQD, CORT, PROF, FSIZ

b. Dependent Variable: DPO ***(Source: SPSS output)***

The table reflects a value of 0.53 in respect to the coefficient of determination otherwise known as the R^2.The R^2 measures the percentage of the total change in the dependent variable (DPO) that can be explained by the independent or explanatory variables, profitability of a firm, Liquidity, firm Size, corporate tax, company age, growthin revenue and tangibility of asset of a company accounts for 53.4% of the total variation in the DPO.While the remaining 46.6% (i.e. 100-53.4) of the variation could be explained by other factors not considered in this model.

The implication of this result is that firm size, profitability, liquidity, corporate tax, company age, tangibility of asset and growth in revenue of a company are very responsive to the DPO and that is why it accounts 53% of variation.

Furthermore, the adjusted R^2 value of 45.4% indicates that if the entire population is considered for this study, this result will deviate from it by only 8% (i.e. 53.4% – 45.4%). This result is therefore considered valid since the difference between the population and the result is insignificant.

Lastly, the F-statistics is estimated at 6.702. This indicates that the predictor variable was as a whole contributing to the variation in the dependent variable and that there exist a statistically significant relationship at 0.0001 between DPO and PROF, LIQD, FSIZ, COTR, CAGE, GROW and TANA. This further indicates that the overall equation is significant at 1% which is far below the 5% generally acceptable level of significant in social sciences.

4.5 Analysis of coefficients

Table 4.5 Coefficients result of variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.305	1.421		.215	.831		
	PROF	-.013	.114	-.027	-.114	.910	.202	4.946
	LIQD	-.022	.022	-.129	-.997	.325	.684	1.463
	FSIZ	.031	.069	.112	.448	.656	.183	5.474
	CORT	-5.39	.000	-.675	-5.124	.000	.656	1.524
	CAGE	.010	.011	.137	.943	.351	.538	1.860
	GROW	-.134	.064	-.242	-2.101	.042	.859	1.164
	TANA	.177	.218	.093	.814	.420	.872	1.146

a. Dependent Variable: DPO

(Source: SPSS output)

Table 4.5 above presents the model coefficients in respect to the independent variables: that profitability of a firm (PROF), Liquidity (LIQD), firm size (FSIZ), corporate tax (CTAX), company age (CAGE), growth in revenue (GROW) and tangibility of asset (TANA). The table reveals that growth in revenue of the firm and corporate tax are statistically significant at 1% & 5%level of significance.While profitability, liquidity, firm size, tangibility of asset and company age are statistically insignificant.

The regression results as presented in table 4.5 above to determine the influence of the independent variables on the dependent variable which revealed that when all the predictor variables are held constant, DPO of selected Ethiopian private insurance companies is estimated at 30.5%. This simply implies that when all the other variables are not considered, there will be a significant increase in the DPO of Ethiopian private insurance companies by 30.5% occasioned by factors not incorporated in this study.

However, a unit change in PROF will bring about an insignificant negative change in the DOP by 0.013. Similarly, a unit change in LIQD will bring about an insignificant negative change in DPO by 0.022 units. Also a unit change in CORT will lead to a significant negative change in DPO by 5.39 units while a unit change in CAGE will bring about an insignificant positive

change in the DPO by 0.10 units. Also a change in TANA will bring an insignificant positive change in DPO by 0.18 units while a change in GROW will lead to a significant negative change in DPO by 0.13 units. Also a unit change in FSIZ of will lead to an insignificantpositive change in DPO by 0.03units.

4.6 Test of research hypotheses

On chapter three the researcher had hypothesize the effect of selected variables on dividend payout policy of Ethiopian insurance companies. In order to recall the researcher had hypothesize profitability, liquidity, firm size, company age and tangibility of asset have positive impact while corporate tax and growth of a company negatively impact on dividend payout decision of a company.

In line with the hypothesis table 4.5 present a statistical evidence that firm size (FSIZ) and tangibility of asset (TANA) have positive 0.031 and 0.177 correlation while corporate tax (CORT) and growth revenue (GROW) correlate -5.3 and -0.134 with dividend payout decision of Ethiopian insurance companies.

The remaining variables which are profitability (PROF), liquidity (LIQD) and company age (CAGE) correlate in contrary with the developed hypothesis.

4.7Discussion and interpretation of regression results

4.7.1 Profitability (PROF) and Dividend payout Ratio (DOP)

The study's first objective sought to examine the extent to which profitability impact on the dividend payout ratios of Ethiopian privet insurance. Findings from the above table 4.5 represent that, the coefficient of profitability (PROF) measured by return on asset (ROA) is -0.305 with significant value of 0.91.Holding all independent variables constant, when profitability increase by 1% dividend payout ratio (DPO) of sampled insurance company will decrease by 91%. Which implies the more the profitable the insurance company are the less the probability of paying dividend.This insignificant value & relationship is inconsistent to the stated hypothesis.

The finding is statistically insignificant therefore, the researcher accept the null hypothesis and conclude that profitability dose not significantly affect the dividend payout ratio of Ethiopian insurance industry.

The finding of this study agrees with (Temesgen, 2016) they find return on asset have negative relation with the dividend payout. And they conclude this may be due to when assets are become

profitable managers need to invest on assets than to pay dividend in order to secure future earnings.

This result is also consistent with the pecking order theory, the firms will prefer to rely more on internal funds or retained earnings as a result the firms will have a tendency of paying less dividend and having more retained earnings. Profitable firms will prefer lower dividends. (John & Muthusamy, 2010) say ROA is negatively related with dividend payout. Firms with larger profits are more likely to pay a dividend, while companies that are facing uncertainty, about future profits, would adopt lower payouts. Furthermore, several studies have documented a positive relationship between profitability and dividend payouts of the firm (Amidu & Abor, 2006),(Nuredin, 2012)&(Samuel. G, 2017)confirm positive association between profitability and dividend payout.

This negative association between profitability and dividend payout ratio could be attributed to the fact that, in Ethiopia insurance companies are at their growth stage they prefer to retain their profit and use it to expandinvestment.

4.7.2 Liquidity (LIQD) and Dividend payout Ratio (DPO)

Also considering the second objectives of this study which sought to examine the extent to which liquidity impact on the dividend payout ratios of Ethiopian privet insurance companies, Finding from the above table 4.5 represent that liquidity which is measured by current ratio is -0.022 with significant value of 0.325. Holding other independent variables constant, when liquidity (LIQD) increased by 1%, dividend payout ratio (DPO) of sampled Ethiopian insurance companies would be decreased by 2%. Which indicates the more liquid asset the insurance company have the less the probability of paying dividend. The finding is statistically insignificant therefore, the researcher accept the null hypothesis and conclude that liquidity dose not significantly affect the dividend payout ratio of Ethiopian insurance industry. The finding is consistent with(Tefera, 2016) who found negative association between liquidity & dividend payout ratio.

This finding is in contrary with the agency theory of cash flow (Jensen & Meckling, 1976) which argued that firms with high cash flow pay higher dividends in order to diminish the agency conflict between managers & shareholders.

This finding is also inconsistent with findings of (Nuredin, 2012) and (Samuel. G, 2017) who found significantly positive relationship between liquidity and dividend payout ratios by studying Ethiopian privet insurance companies.

This negative association between liquidity and dividend payout ratio could be attributed to the fact that, insurance business in its nature face uncertainty in order to prevent insolvency probleminsurance company managers may choose to stayin strong cash position instead of paying the available cash as dividend.Additionally insurance business in Ethiopia has higher growth opportunity due to this fact more cash is required for expansion.

4.7.3 Firm size (FSIZ) and Dividend payout Ratio (DPO)

The third objective of the sturdy is to examine the extent to which size of the firm impacts on the dividend payout ratio of Ethiopian privet insurance companies. Findings from the above table 4.5represent that the coefficient of firm size (FSIZ) measured by logarithm of total asset is 0.031 with significant value of 0.606. Which indicates holding all other independent variables constant a 1% increase in total asset will increase the probability of dividend payment by 3%. The finding is statistically insignificant therefore, the researcher accept the null hypothesis and conclude that firm size dose not significantly affect the dividend payout ratio of Ethiopian insurance industry.

The finding agrees with(Nuredin, 2012)study which finds that size is insignificant in influencing the dividend policy of insurance companies in Ethiopia. In Ethiopia (Temesgen, 2016). Studies also show a positive and insignificant association between firm size and dividend payout.

This positive association between firm size and dividend payout ratio could be attributed to the fact that, selected insurance company for this study are large firms compared to the unselected once. So they have the opportunity to access more source of fund by making collateral their asset. Also large companies choose to buy insurance premium from large insurance companies to recover from unforeseen risk. Generally larger firms pay higher dividends because of stable earnings& easy accessibility of fund.

4.7.4 Corporate tax (CORT) and Dividend payout Ratio (DPO)

The forth objective of the sturdy is to examine the extent to which corporate tax impacts on the dividend payout ratio of Ethiopian privet insurance companies. The above table 4.5 represent that the coefficient of corporate tax is -5.32 with significant value of 0.0001.Holding all other independent variables constant when corporate tax increase by 1% dividend payout ratio (DPO) of sampled insurance companies decrease by 53.2%. The result suggests that higher the taxes paid by the firm, the lower will be the profit left over for making dividend payments and the estimated negative relation between dividend and corporate tax payments is consistent with prior expectation.The finding is statistically significant at 10% significant level therefore, the

researcher reject the null hypothesis and conclude that corporate tax significantly affect the dividend payout ratio of Ethiopian insurance industry.

The finding supports the previous findings of(Rafique, 2012) and inconsistent with (Amidu & Abor, 2006) who found that corporate tax and dividend payout ratio are positively relatedin their study of determinants of dividend payout.

This negative association between corporate tax and dividend payout ratio could be attributed to the fact that, Ethiopian insurance company pay high corporate tax on their profit it affect the ability of paying high dividend.

4.7.5 Company age (CAGE) and Dividend payout Ratio (DPO)

The fifth objective of the sturdy is to examine the extent to which company age impacts on the dividend payout ratio of Ethiopian privet insurance companies. The above table 4.5 represent that the coefficient of company age is 0.01 with the significance value of0.351. Holding all other independent variables constant when company age increased by 1% the probability of dividend payout ratio also increase by 1%. The result implies that the older the insurance company is the higher the probability of payment of dividend. The finding is statistically insignificant, therefore, the researcher conclude that company age dose not significantly affect the dividend payout ratio of Ethiopian insurance industry. This finding agree with (Temesgen, 2016) study which found firm age have positive relation with the dividend payout.

Age was expected to be positively related to dividend payout policy of private insurance companies in Ethiopia since relatively matured companies pay more dividends because according to the life cycle theory of dividend when companies get mature their growth and need for new investment will decrease and hence resulted in high dividend.

This positive association between company age and dividend payout ratio could be attributed to the fact that, the selected insurance companies for this study are not that much old companies the maximum age is 25 years and the minimum is 4 years, that they are at their growth stage the need for investment is high because of this the probability of payment of dividend is 1% it is a small probability.

4.7.6Growth in revenue (GROW) and Dividend payout Ratio (DPO)

The six objective of the study is to examine the extent to which growth in revenue of a company affect dividend payout policy. The above table 4.5 represent that the coefficient of growth in revenue is - 0.134 with significant value of 0.042. Holding all other independent variables constant, when growth in revenue increase by 1% the probability of dividend payout ratio of sampled insurance company will decrease by 13.4%. Which indicates that the higher the growth in revenue the lesser the probability of payment of dividend. The finding is statistically significant at 5% significant level, therefore, the researcher reject the null hypothesis and conclude that growth in revenue significantly affect the dividend payout ratio of Ethiopian insurance industry.

The finding is consistent with (Nuredin, 2012)&(Samuel. G, 2017) who find negative and significant relation between growth and dividend payout ratio.

The finding implies that growth has a negative and significant impact. Growth was expected to be negatively related to dividend payout policy of private insurance companies in Ethiopia since growing insurance will need more cash/funds for expansion. This will therefore make them retain enough of their net earnings instead of paying higher dividend to the shareholders.

This negative association between growth in revenue and dividend payout ratio could be attributed to the fact that, Insurance companies in Ethiopia have high growth opportunity for profitable insurance investment. Due to this fact they prefer to reinvest or expand the businessinstead of paying dividend

4.7.7 Tangibility of asset (TANA) and Dividend payout Ratio (DPO)

The final objective of the study is to examine the impact of tangibility of asset to dividend payout policy of Ethiopian privet insurance companies. The above table 4.5 represent that the coefficient of tangibility of asset is 0.177 with statistical value of 0.42. Holding all other independent variables constant when tangibility of asset increase by 1% dividend payout ratio of sampled insurance companies increase by 17%.Which indicates that an insurance company which have a higher tangible asset have the probability of paying dividend. The finding is statistically insignificant, therefore, the researcher accept the null hypothesis and conclude that tangibility of asset dose not significantly affect dividend payout ratio of insurance industry.This result is also similar to previous studies of (Samuel. G, 2017)&(Habtamu, 2019).

This is consistent with the hypothesis as described in the previous chapter companies owning the most tangible assets are likely to borrow more than those owning the most intangible assets, so they have the ability to keep less retained earnings and pay higher dividends ratio.

Table 4.6 Comparison of test result with expectation

Proxy variable	**Expected result**	**Actual result**	**Statistical Significance**	**Hypothesis**
Profitability(PROF)	+	-	Insignificant	Reject
Liquidity (LIQD)	+	-	Insignificant	Reject
Company Size (FSIZ)	+	+	Insignificant	Reject
Corporate tax (CORT)	-	-	Significant at 1%	Failed to Reject
Company Age (CAGE)	+	+	Insignificant	Reject
Company growth (GROW)	-	-	Significant at 5%	Failed to Reject
Tangibility of asset (TANA)	+	+	Insignificant	Reject

CHAPTER FIVE

Conclusion and recommendation

The aim of this chapter is to describe conclusions based on the research findings and to forward possible recommendation. The chapter has been organized as follows: - The first section provides summary of findings of the study; then the second section presents conclusion of the study and the third section presents recommendation and gives suggested areas for further research.

5.1 Summery of findings

The main purpose of the study was to examine the determinants of dividend payout policy for private insurance companies in Ethiopia. Quantitative research approach used to carry out the study. Secondary data obtained from NBE & published annual report of selected insurance companies was used. Data from seven selected insurance companies was obtained covering the period from 2013 to 2019.In addition, seven hypotheses were formulated to be tested under the study. The following variables were measured as independent variables; profitability, liquidity, firm size, corporate tax, company age, growth in revenue and tangibility of asset while dividend payout was regarded as dependent variable.

More specifically, the analysis were performed using panel data by using SPSS statistical software and statistical analysis which included descriptive, correlations and regressions analysis were identified as an appropriate tool for econometric analysis of the data. Panel data multiple regressions model were run to obtained the result. The model revealed the data to be normal and all regressions result were consistent.

By using SPSS statistical software the following findings where obtained. The result revealed that growth in revenue and corporate tax significantly affect dividend payout for private insurance companies in Ethiopia. Both variables relate with dividend payout policy negatively. This implies that when there is higher opportunity for growth, insurance company in Ethiopia prefer to retain the profit earned for future expansion of investment. Also corporate tax negatively affect dividend payout this implies that when corporate tax expense increase the probability of dividend payment decrease. The remaining variables have insignificant relationship which are profitability, liquidity, firm size, company age and tangibility of asset. However firm size, company age & tangibility of asset relate positively while profitability and liquidity relate negatively to dividend payout.

5.2 Conclusion

This study identifies the determinants of dividend payout policy in Ethiopian insurance companies. It used panel data set of 2013 to 2019 for seven private insurance companies. The objective of this study is to identify the determinant factors which affect dividend payout policy of Ethiopan insurance industry, to ascertain the significance and the relation of selected variables.

For this purpose secondary and quantitative data obtained from NBE and published annual report of selected insurance companies have been used. In order to find out the most influential factorof dividend payout ratio the researcher develop a regression model by making dividend payout ratio a dependent variable and profitability, liquidity, firm size, corporate tax, company age , growth in revenue and tangibility of asset as an explanatory(predictor) variables.

OLS modelassumption was applied and to insure the model validity test of multicoliniarity, heterosckedacity, normality and autocorrelation has been made and it states that the model is free of melticoliniarity, hetroscdacity , autocorrelation and the data are normally distributed overall it is best fit model. Generally the regression model explain 53% of the variation in determining dividend payout is affected by the selected variables and the other 47% will be determined with variables which are not included in this study.

The regression analysis indicates that out of the seven independent variables only growth in revenue and corporate tax significantly affect dividend payout ratio of Ethiopian insurance company. It also indicates that firm size, liquidity and tangibility of asset positively relate with dividend payout ratio and the other four variables which are profitability, corporate tax, companyage and growth in revenue relate negatively.

The results of the regression analysis imply that growth has a negative and significant impact on dividend payout of Ethiopian insurance companies.The negative relation implies that dividend payout ratio decreases as the growth rate increases. Growth was expected to be negatively related to dividend payout policy of insurance companies in Ethiopia since growing insurance will need more cash/funds for expansion. This will therefore make them retain enough of their net earnings instead of paying higher dividend to the shareholders.

The results of the regression analysis implies that corporate tax also have negative and significant impact on Ethiopian insurance companies. The result implies that the higher the taxes paid by the firm, the lower will be the profit left over for making dividend payments.

5.3 Recommendation

Based on the findings of the study the researcher would like to give the following recommendations for investors, insurance managers and to the government.

Investors must have knowledge of factors that can influence dividend payout decision of a firm. From the finding of this study investors who would like to invest in Ethiopian insurance companies must analyze the impact of corporate tax and growth of insurance companies as it is found out the significant influencing factor. Also they must analyze the relation of dividend payout and the selected variables effect for instance size, liquidity and tangibility of asset positively relate with dividend payout ratio which means if they increase the probability of paying dividend also increase. Due to this the researcher would like to suggest investors when making an investment decision in Ethiopian insurance companies they should select large & matured firms which have positive liquidity and more tangible asset.

Managers of insurance companies in Ethiopia should consider the significant factors found in this study in order to make effective and efficient dividend decisions. As it is stated in the finding of the study corporate tax have significant and negative effect which will implies that if corporate tax increases dividend payout decrease. If management objective is to maximize shareholders wealth they should maximize it by retaining the profit of the company and spending it for investment since investment expenditure reduce the income for the year it also reduce the corporate tax expense since it is taxed from the income. The investment will maximize the capital gain of investors for the future. As tax preference theory suggested that because dividend is taxed immediately and at higher rate than capital gain some investors prefer low dividend which lower the rate of return which in the long run maximize the market value of the firm.

Growths in revenue also have a negative and significant impact on dividend payout decision. Managers also should consider what shareholder's preference is before investing companies profit.

Also, government should provide support for insurance sector, since it is one of the most important financial sectors in Ethiopia by giving tax relief and encouraging investment policies and regulations.

5.4 Further Research suggestion

Due to limitation of time this research only select seven internal factors which affect dividend payout where selected and examined in this study. It is possible that other factors could have a greater impact on dividend payout decision than the one included in this study. Therefor other researchers are suggested to do further research which include the effect of macroeconomic factors, shareholders preference towards dividend and the impact of government policy.

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